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SUBJECT: ETHIOPIAN AIRLINES DETAILS AMBITIOUS EXPANSION PLANS

11. SUMMARY: In recent meetings, the management of Ethiopian Airlines detailed expansion plans both to their core business and into associated areas. The airline's plans mesh well with the Government of Ethiopia's (GoE) poverty reduction efforts, but overexpansion or poor investments could risk Ethiopian's status as one of the premier airlines in Africa. END SUMMARY.

#### CARGO AND COLD STORAGE

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12. As the GoE encourages export-oriented agriculture and manufacturing, Ethiopia's national carrier has responded by increasing cargo capacity. The airline owns two Boeing 757s and has leased two Boeing 747s which are used exclusively for cargo, delivering up to 600 tons of fresh flowers per week to European markets along with other cargo. Ethiopian has also examined loads on its passenger flights to Europe and the U.S. and found excess capacity that is being used now to export textiles and garments. With the anticipated December 2009 delivery of Africa's first Boeing 787, Ethiopian plans to expand further its cargo processing and cold storage areas at Bole International Airport.

13. The current cold storage facility was designed with one room for holding both meat and flowers/produce, which poses sanitary and phytosanitary issues. To address this in the near term, the airline is treating meat as immediate air freight and loading it directly onto the planes. The entire working area of 1,200 square meters is currently used for flower storage and processing. Because floriculture is a boom industry, forecasts are that the current facility will be inadequate to meet needs in the near future. The airline is consulting with Dutch and German companies on a re-design of the existing facility. Additionally, Ethiopian would like to construct additional cold-storage and have sought preliminary advice from the same German and Dutch companies. However, Ethiopian Airlines Chief Operating Officer Tewolde Gebremariam related to EconOff and visiting U.S. Trade and Development Agency (USTDA) Country Manager Andrea Lupo that the airline is very much interested in U.S. expertise in the design and equipment of the future facility, including a detailed feasibility study done by a U.S. firm if USTDA funding were available.

#### CATERING

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14. In partnership with Lufthansa, Ethiopian is upgrading and expanding its catering facilities. Many airlines currently cater out of their European hubs for segments outbound from Addis (i.e. Lufthansa loads catering for its Addis-Frankfurt route in Frankfurt). Ethiopian hopes that this upgrade will attract airlines to cater out of Addis. There is competition in this area from a new facility built and operated by Ethiopian-Saudi tycoon Sheik Mohammed Al Amoudi. Ethiopian COO Tewolde expressed skepticism on the ability of the Sheik to compete, stating that the 14,000 meals per day the facility will produce is far too much for the current or projected market at Bole. Tewolde has confidence that Ethiopian's track record in other services (cargo, pilot training, etc.) and Lufthansa's reputation for catering will give them the edge in this competition.

#### A FOUR STAR HOTEL

15. The airline recently broke ground for construction of a four star hotel immediately outside of Bole Airport. The hotel will have 300 rooms and is estimated to cost \$30 million to build. When completed, the hotel should compete with the city's two existing four star hotels, the Sheraton and the Hilton, with the advantage of being conveniently located for transit passengers. However, it is unclear whether the airline will contract with an established hotel-management company or attempt to run the hotel on its own.

#### A SECOND HUB IN WEST AFRICA

16. In addition to expanding its route network with recently-announced service to Riyadh and Kuwait and plans for other relations, the COO related plans to establish a second hub in West Africa to facilitate European-African travel as well as intra-African service. Tewolde declined to reveal the eventual location of the hub, but press reports from 2007 indicate that Lome, Togo is a contender.

17. COMMENT: Ethiopian Airlines has a proud history of good operations, safety and profitability. Many of their expansion plans (cargo, second hub) fit well in their core business. However, expansion into the hotel business and outsourced catering may be a stretch. Ethiopian's profile should continue to rise with the addition of the Boeing 787 in late 2009. Whether its expansion plans fly high or fall flat will depend on decisions regarding management as well as global factors including market demand for Ethiopian exports and fuel costs. END COMMENT.

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